



**Internal Audit Update
July 2024
Harborough District Council**

1. Introduction

- 1.1 The North Northamptonshire Council Internal Audit service has been commissioned to provide 235 audit days to deliver the 2024/25 Annual Audit Plan for Harborough District Council - and undertake other work commissioned by the Council, as required.
- 1.2 The Public Sector Internal Audit Standards (the Standards) require the Audit and Standards Committee to scrutinise the performance of the Internal Audit Team and to satisfy itself that it is receiving appropriate assurance about the controls put in place by management to address identified risks to the Council. This report aims to provide the committee with details on progress made in delivering planned work, the key findings of audit assignments completed since the last committee meeting, updates on the implementation of actions arising from audit reports and an overview of the performance of the Consortium.

2. Performance

Delivery of the Audit Plan for 2024/25

- 2.1 Internal Audit has been set the objective of delivering at least 90% of the Internal Audit plans for 2024/25 to draft report stage by the end of March 2025.
- 2.2 At the date of writing, 27% of the audit plan is either complete or in progress. The delivery remains on track for the year.
- 2.3 Progress on individual assignments is shown in **Table 1**.

Delivery within budget

- 2.4 Internal Audit is on target to deliver the audit plan within the 235 days budget. Any overruns on individual assignments are managed within the overall budget.

Client satisfaction

- 2.5 Customer satisfaction questionnaires are issued on completion of audits. At the time of reporting, two questionnaires have been completed in 2024/25. The feedback is summarised in **Table 2**.

Outstanding audit recommendations

- 2.6 Since 1st April 2024, 5 agreed management actions have been closed. At the date of reporting, there are 35 agreed management actions that are due but yet to be confirmed as implemented. Of these, 20 are of a 'high' or 'medium' priority.
- 2.7 An analysis of the implementation of actions is provided in **Table 3**. Full details of all overdue 'high' and 'medium' priority recommendations are provided in **Appendix B**.

3. Audit findings

3.1 Financial system key controls 2023/24

- 3.1.1 The Council operates several systems designed to ensure that transactions are recorded in a timely, accurate and complete manner, free from fraud or error. These systems are often referred to as 'Key' or 'Fundamental' financial systems. The Section 151 Officer is required to include a note in the Council's annual financial statements that confirms he has kept proper accounting records. This audit supports the S151 Officer in exercising his duty and seeks to provide assurance over key financial controls. These controls underpin the effective delivery of all services and therefore support all corporate priorities.
- 3.1.2 During 2023/24 a new finance system has been implemented which incorporates a number of these key systems, including the main accounting system (general ledger), creditor payments (accounts payable) and sundry debtors (accounts receivable). Given that the new system was implemented relatively recently (November 2023), it was agreed with management that the audit would focus on walkthrough testing to assess control design as full compliance testing was considered impractical at this stage. Consequently, no compliance assurance rating has been given as part of this audit.
- 3.1.3 Based on the audit findings, good assurance was provided over the migration of data and balances to the new system. As part of the implementation process, officers stated that priority was given to ensuring that effective controls and process were operational in respect of the creditors system and audit testing confirmed this to be the case. Other controls were scheduled for development in the post-implementation stage and this has placed further restrictions on the scope of the audit. Specifically, bank reconciliations, control account reconciliations, clearance of suspense accounts and sundry debtor processes (billing and recovery) all remained in development at the time of audit. Consequently, full testing was not possible in these areas. Continued management focus and staff resources are required to ensure all processes and controls are implemented as soon as possible. Further work is also required to ensure a complete and accurate set of procedure notes are in place covering all aspects of the new system.
- 3.1.4 Based on the audit findings, Internal Audit has given the following assurance opinions over the management of the associated risks:

Assurance Opinion	
Control environment	Moderate (Amber)
Organisational impact	Medium (Amber)

3.2 Decision making and delegations 2023/24

- 3.2.1 The Council operates executive arrangements of a Leader and Cabinet model as prescribed in the Local Government and Public Involvement in Health Act 2007 whereby the Leader of the Council is appointed for a 4-year term (subject to certain

restrictions) and then determines the executive arrangements of the Council, including delegation to Cabinet Members, Committees and Officers. The non-executive roles are, in summary, regulatory, constitutional and personnel-related matters. This role is undertaken by various Committees appointed by the Council and by Officers in accordance with terms of reference and delegations set by the Council.

- 3.2.2 The audit was carried out to provide assurance that controls are in place to ensure compliance with the Council’s Constitutional arrangements for decision making and appropriate recorded use of delegations, which can be accessed via the Council’s website.
- 3.2.3 The Council has extensive decision-making guidance available to Officers via SharePoint and a clear definition of a ‘key decision’. Audit testing, however, noted some areas where expected controls were not consistently evidenced such as timely publication of minutes to reflect key decisions taken and some gaps in record keeping for delegated decisions. In 100% of cases tested, it was confirmed that delegated decisions had been taken in line with the Constitution and had been published, but in some instances, there was a lack of complete audit trail to track a delegated decision throughout the process. There is scope to make some guidance more succinct and user friendly, to ensure, for example, consistent completion of Written Record of Decision forms and New Business Items Forms.
- 3.2.4 Training provision for both Officers and Members is an area where further work could increase confidence in the decision-making process and reflect on areas highlighted within this audit.
- 3.2.5 Based on the audit findings, Internal Audit has given the following assurance opinions over the management of the associated risks:

Assurance Opinion	
Control environment	Good (Green)
Compliance	Good (Green)
Organisational impact	Low (Green)

3.3 Procurement compliance 2023/24

- 3.3.1 To ensure compliance with legal and regulatory requirements in respect of competition, transparency and value for money when procuring goods, works or services the Council has developed a set of Contract Procedure Rules (CPRs) and Statement of Required Practice for Procurement (SORP) which form part of the Council’s Constitution and can be accessed via the website. It is understood that there had been no changes to these documents within 2023/24. This audit was carried out to provide assurance that approved rules and practices are being complied with.
- 3.3.2 In April 2023, the Council commenced partnership working with Welland Procurement Unit (WPU). Areas of support included specialist procurement

provision, guidance for contract awards over £50k and access to contract register software (ProContract) to be used by both Council and WPU staff.

- 3.3.3 To comply with the Local Government Transparency Code, all expenditure over £500 is published on the Council's website, together with the contract register. Comparisons of all suppliers with whom the Council had incurred expenditure in excess of £40k identified discrepancies where spend could not be matched to a register entry. Sample testing confirmed that the published version of the contract register was incomplete, with only three contracts added to the register during 2023/24. WPU confirmed that training on contract register maintenance had been provided to Council staff, however, there had been an oversight in handover and allocation of some tasks.
- 3.3.4 Detailed compliance testing was carried out on a sample of six new contracts. Of these, three contract awards were selected from the published contract register and three had been identified by WPU, given the gaps in the register noted above. The compliance testing conducted found that four contract awards were evidenced as compliant with CPRs and SORP requirements. Of the remaining cases, one related to agency staff spend where a recommendation from the 2022/23 procurement audit remains outstanding, so no further recommendation has been raised. For the other case tested, it was noted that the contract commenced prior to completion of the formal contract documentation.
- 3.3.5 Given the changes in procurement support arrangements, and the audit findings, it is recommended that further training and awareness is provided for Council managers. This should ensure roles and responsibilities are clearly understood - including retention of evidence and when to engage with WPU.
- 3.3.6 Based on the audit findings, Internal Audit has given the following assurance opinions over the management of the associated risks:

Assurance Opinion	
Control environment	Moderate (Amber)
Compliance	Moderate (Amber)
Organisational impact	Medium (Amber)

3.4 Budget setting 2024/25

- 3.4.1 Budget setting is a fundamental part of the Council's internal control framework and directly supports the Council's corporate objective of ensuring sound financial management and sustainable communities.
- 3.4.2 The 2024/25 budget and Medium Term Financial Strategy (MTFS) received approval by Council on 26th February 2024. This shows net revenue expenditure of £15.3 million for 2024/25 and a net contribution to reserves of £2.6 million. Forecasts from 2025/26 onwards show a potential deficit from 2026/27 indicating a need to identify savings of £5.9 million across the period of the MTFS, subject to significant uncertainties regarding future government funding and inflation levels. The capital

strategy and five-year capital programme shows forecast spending of £30 million consisting of a broad range of capital investments, including leisure improvement works, environmental projects, infrastructure and disabled facilities grants. Capital works are funded primarily from borrowing (internal), grants, capital receipts, developer contributions and earmarked reserves.

3.4.3 Based on the audit findings, there is a sound system of controls in place for effective budget setting and financial planning. Whilst there are no written procedures, suitable guidance and support is in place and roles are well established and understood. All budget assumptions and principles are soundly based and clearly established at an early stage of the budget setting process and there is a clear and effective approach to review of fees and charges. Management of financial sustainability is supported by a robust five-year medium term financial plan which is linked to the Council’s corporate objectives and includes a clear assessment of risks and sensitivities. The Council has an approved risk-based policy on balances and reserves, including a specified minimum working balance of 20% of net expenditure. Revenue and capital budgets are fully integrated and plans are in place to strengthen arrangements for development of the capital programme from 2025/26. There is a clear and structured approach to the development of growth and savings plans with all budgets and service proposals being subject to effective review, scrutiny and approval by senior managers and Members. The Chief Finance Officer has provided a clear statement on the robustness of the 2024/25 estimates and adequacy of reserves, as required by the relevant legislation.

3.4.4 Based on the audit findings, Internal Audit has given the following assurance opinions over the management of the associated risks:

Assurance Opinion	
Control environment	Substantial (Green)
Compliance	Substantial (Green)
Organisational impact	Low (Green)

4. *Review of the audit plan coverage*

4.1 During the financial year, the audit plan must remain subject to ongoing review to ensure it continues to focus on the Council’s key risks and adds value. During the year to date, one additional audit has been proposed for audit coverage in relation to housing allocations. It is proposed that 12 days for this additional assignment be added to the annual audit plan. There are no planned assignments which the Chief Internal Auditor and management consider can be removed from the plan at this time. The plan will remain under regular review during the year.

Table 1 - Progress against 2024/25 internal audit plan

Assignment	Assurance sought	Budget days	Planned start	Planned reporting	Status	Assurance rating	Comments
Corporate governance and counter fraud							
Ethical governance	To provide assurance over the Council's suite of ethical governance policies and the effective communication and embedding of these in practice.	10	August 2024	September 2024	Not started		
Procurement compliance	To test compliance with Contract Procedure Rules and the Statement of Required Practice on the procurement of goods and services across the Council. To inform annual assurance opinion on value for money and counter fraud.	5	February 2025	March 2025	Not started		
Key corporate controls and policies							
Key financial controls	To provide assurance over the design and compliance with key controls within the Council's financial systems. Undertaken on an annual basis, with a cyclical approach to testing. To inform external audit work and provide s151 assurances. To include assessment against relevant elements of the CIPFA Financial Management Code.	30	January 2025	March 2025	Not started		
Budget setting	To provide assurance over the budget setting process to ensure compliance with best practice and alignment with capital programme.	12	April 2024	June 2024	Final report issued	Control environment: Substantial Compliance: Substantial Organisational impact: Low	See section 3.4
IT Transformation Programme	To provide assurances over the delivery of the transformation programme - including a move to cloud-based hosting.	12	August 2024	October 2024	Not started		

Assignment	Assurance sought	Budget days	Planned start	Planned reporting	Status	Assurance rating	Comments
Traded services	To provide assurance over compliance with expected controls and regulations for managing traded services including managing surplus/deficit balances.	14	October 2024	December 2024	Not started		
Corporate objective: Healthy lives							
Housing strategy	To provide assurances on arrangements in place for governance and delivery of the strategy.	10	February 2025	March 2025	Not started		
Corporate objective: Place and community							
Private sector housing	To provide assurance over the controls in place for private sector housing in light of latest regulatory requirements and good practice. To include coverage on illegal evictions, the new Empty Property Strategy. enforcement of damp and mould action plans and compliance with the Housing Health and Safety Rating System.	15	June 2024	August 2024	Fieldwork underway		
Housing allocations	To provide assurance that the Council's Housing Allocation's Policy has been reviewed and approved in line with legislative requirements, as well as providing assurance over the consistent and fair application of the housing allocation policy and procedures, so that qualifying applicants are given an appropriate level of priority	-	July 2024	August 2024	Fieldwork underway		Additional review – 12 days
UK Shared Prosperity Fund	To provide assurance over the effective application of grant monies and compliance with terms.	8	July 2024	September 2024	Not started		

Assignment	Assurance sought	Budget days	Planned start	Planned reporting	Status	Assurance rating	Comments
Environmental Services and Waste Programme	To provide assurance over the programme of waste related activities and projects. An area with a number of risks to manage (including changes in regulations, contract re-procurement, fleet management, ongoing contract management and partnership working) with notable capital and revenue spend.	18	August 2024	October 2024	Not started		
Building control partnership	To seek assurances over how well the Building Control partnership is delivering against expected benefits. Area of increasing risk scoring on the register and financial pressures forecast for the Council.	8	November 2024	January 2025	Not started		
S106 monitoring	To provide assurance over the collection of s106 monies due, based on monitoring of trigger points, and the accounting for the timely use of those monies, in line with the s106 agreements.	15	November 2024	January 2025	Not started		
Local plan development project	To provide assurance over the delivery of this key project to support a timely, quality outcome which is suitably informed and delivered in line with the Council's project management framework. To adopt an embedded assurance approach.	12	Ongoing throughout year	Aligned with project	Engaged with project		
Corporate objective: Environment and sustainability							
Community and environmental grants	Budget for 2024/25 includes a significant amount of spend on grants for community groups, parish councils (£1m) and for allocation by ward members (£5k). To provide assurance over the awarding of grants, compliance with terms/reporting requirements to ensure value for money and consistent application of criteria/eligibility.	10	October 2024	November 2024	Not started		

<i>Assignment</i>	<i>Assurance sought</i>	<i>Budget days</i>	<i>Planned start</i>	<i>Planned reporting</i>	<i>Status</i>	<i>Assurance rating</i>	<i>Comments</i>
Other support							
Client management and support - support and reporting to Audit and Standards Committee, management support and engagement, ad-hoc advice and assistance, annual Internal Audit report, follow ups on audit recommendations and partnership working with external auditors.		35					
Audit management - development and management of the Internal Audit service in line with the Public Sector Internal Audit Standards, including annual standards assessment, continuous improvement, internal audit charter and manual, management, training and development of the team and performance reporting.		20					
Total		235					

Notes

At the completion of each assignment the Auditor will report on the level of assurance that can be taken from the work undertaken and the findings of that work. The table below provides an explanation of the various assurance statements that Members might expect to receive.

Compliance assurances		
Level	Control environment assurance	Compliance assurance
Substantial	There is a sound system of internal control to support delivery of the objectives.	The control environment is operating as intended with no exceptions noted which pose risk to delivery of the objectives.
Good	There is generally a sound system of internal control, with some gaps which pose a low risk to delivery of the objectives.	The control environment is generally operating as intended with some exceptions which pose a low risk to delivery of the objectives.
Moderate	There are gaps in the internal control framework which pose a medium risk to delivery of the objectives.	Controls are not consistently operating as intended, which poses a medium risk to the delivery of the objectives.
Limited	There are gaps in the internal control framework which pose a high risk to delivery of the objectives.	Key controls are not consistently operating as intended, which poses a high risk to the delivery of the objectives.
No	Internal Audit is unable to provide any assurance that a suitable internal control framework has been designed.	Internal Audit is unable to provide any assurance that controls have been effectively applied in practice.

Organisational impact	
Level	Definition
High	The weaknesses identified during the review have left the Council open to a high level of risk. If the risk materialises it would have a high impact upon the organisation as a whole.
Medium	The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a medium impact upon the organisation as a whole.
Low	The weaknesses identified during the review have left the Council open to low risk. This may have a low impact on the organisation as a whole.

Table 2: Customer satisfaction

At the completion of each assignment, the auditor issues a customer satisfaction questionnaire (CSQ) to each client with whom there was a significant engagement during the assignment. The standard CSQ asks for the client’s opinion on four key aspects of the assignment. The responses received in the year to date are set out below.

Aspects of Audit Assignments	Not applicable	Outstanding	Good	Satisfactory	Poor
Design of Assignment	-	1	1	-	-
Communication during Assignments	-	2	-	-	-
Quality of Reporting	-	2	-	-	-
Quality of Recommendations	-	2	-	-	-
Total	-	7	1	-	-

Table 3: Implementation of audit recommendations

	High priority recommendations		Medium priority recommendations		Low priority recommendations		Total	
	Number	% of total	Number	% of total	Number	% of total	Number	% of total
Actions due and implemented since last committee meeting	1	50%	4	14%	-	-	5	13%
Actions due within last 3 months, but not implemented	-	-	7	23%	1	13%	8	20%
Actions due over 3 months ago, but not implemented	1	50%	19	63%	7	87%	27	67%
Totals	2	100%	30	100%	8	100%	40	100%

Limitations and responsibilities

Limitations inherent to the internal auditor's work

Internal Audit is undertaking a programme of work agreed by the Council's senior managers and approved by the Audit & Standards Committee subject to the limitations outlined below.

Opinion

Each audit assignment undertaken addresses the control objectives agreed with the relevant, responsible managers.

There might be weaknesses in the system of internal control that the consortium are not aware of because they did not form part of the programme of work; were excluded from the scope of individual internal assignments; or were not brought to Internal Audit's attention. As a consequence, the Audit & Standards Committee should be aware that the audit opinion for each assignment might have differed if the scope of individual assignments was extended or other relevant matters were brought to Internal Audit's attention.

Internal control

Internal control systems identified during audit assignments, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making; human error; control processes being deliberately circumvented by employees and others; management overriding controls; and unforeseeable circumstances.

Future periods

The assessment of each audit area is relevant to the time that the audit was completed in. In other words, it is a snapshot of the control environment at that time. This evaluation of effectiveness may not be relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulatory requirements or other factors; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management; internal control and governance; and for the prevention or detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

Internal Audit endeavours to plan its work so that there is a reasonable expectation that significant control weaknesses will be detected. If weaknesses are detected additional work is undertaken to identify any consequent fraud or irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and its work should not be relied upon to disclose all fraud or other irregularities that might exist.